

## **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Friendship State Bank, Friendship, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 7, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S RATING:** This institution is rated Outstanding. The examination review covered a period from January 17, 1996 through April 7, 1997.

The bank promotes economic revitalization and growth consistent with its size, financial capacity, and local economic conditions. The bank's efforts are accomplished primarily through the origination of retail and commercial loans. This rating is supported by a high loan-to-deposit ratio and level of lending within the assessment area. Additionally, the bank's performance in making loans to borrowers of different income levels is strong and the geographic distribution of loans is satisfactory.

## **DESCRIPTION OF BANK**

The Friendship State Bank, with total assets of \$58.8 million as of December 31, 1996, is a subsidiary of Friendship Bancorp, Inc., a one-bank holding company. The bank operates three full-service offices. The main office is in Friendship and branch offices are located in Dillsboro and Cross Plains; all three offices are located in middle-income census tracts/block numbering areas (BNAs). The bank has two full-service automated teller machines (ATMs) located at the Friendship and Cross Plains offices.

The bank's main competitors include: Peoples Trust Company (Brookville), Ripley County Bank (Osgood), Citizens National Bank of Madison (Madison), Vevay Deposit Bank (Vevay), The Napoleon State Bank (Napoleon) and American State Bank (Lawrenceburg).

## **DESCRIPTION OF BANK'S ASSESSMENT AREA**

The assessment area is comprised of eight BNAs (9657 through 9660, and 9686 through 9689) and three census tracts (805.00 through 807.00) and includes all of Switzerland and Ohio Counties, and portions of Dearborn, Jefferson and Ripley Counties. On February 19, 1997, the bank's board of directors approved the revision of the assessment area.

The bank is located in Friendship, Indiana (Ripley County), approximately 90 miles southeast of Indianapolis, Indiana and 60 miles west of Cincinnati, Ohio; the Cross Plains office is also located in Ripley County. The Dillsboro office is located in Dearborn County, which is partially located in the Cincinnati Metropolitan Statistical Area (MSA). According to 1990 census data, Friendship, Dillsboro and Cross Plains have populations of 100, 1,200 and 150, respectively. The populations of Dearborn, Jefferson, Ripley, Ohio and Switzerland Counties are 38,835; 29,797; 24,614; 5,315; and 7,738, respectively.

The assessment area has a population of 44,279, of which 44,007 or 99.4% is White and 272 or 0.6% are minorities. The MSA median family income is \$36,658 and the Indiana nonmetro median family income is \$30,800. Of the total families in the assessment area, 2,524 (20.5%) are considered low-income; 2,679 (21.7%) are moderate-income; 3,165 (25.7%) are middle-income; and 3,951 (32.1%) are upper-income. Two BNAs (9659 and 9657) are considered moderate-income, and nine BNAs/census tracts are middle-income.

According to the Indiana Department of Employment Security, unemployment labor statistics for the State of Indiana, and Dearborn, Jefferson, Ripley, Switzerland and Ohio Counties are as follows:

<b>Area</b>	<b>February 1997 (%)</b>	<b>February 1996 (%)</b>
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Area	February 1997 (%)	February 1996 (%)
State of Indiana	3.4	5.1
Dearborn County	4.4	6.6
Jefferson County	4.5	5.7
Ripley County	3.6	6.4
Switzerland County	4.9	8.4
Ohio County	3.9	6.9

As the previous chart illustrates, from February 1996 to February 1997, the state and counties' unemployment rates decreased.

The following table is a list of major employers in the community:

Business Name/Location	Product/Service	Number of Employees
Aurora Casket Co., Inc, Aurora	Metal Burial Caskets	520
The Batesville Casket Co., Batesville	Caskets	3,000
Hill-Rom Co., Batesville	Hospital Furniture and Equipment	1,800
Joseph E. Seagram & Sons, Lawrenceburg	Alcoholic Beverages	1,000
Grote Industries, Inc., Madison	Truck Safety Equipment	500
Reliance Electric Industrial Co., Madison	Electric Motors	450
Thomas & Skinner, Inc., Osgood	Patterns & Dies	233
United States Shoe Corp., Vevay	Women's Shoes and Footware	400

Source: Indiana Manufacturers Directory (1994)

There are 17,727 housing units within the assessment area, of which 12,411 (70.0%) are owner-occupied; 3,527 (19.9%) are rental units; and 1,789 (10.1%) are vacant units. The median housing value is \$45,276, the median gross rent is \$280, and the median housing age is 29 years.

Representatives from two government organizations indicated that the assessment area's economy and unemployment rates are improving, and opportunities for future economic growth are good.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Management has implemented policies, procedures and training programs to ensure compliance with fair lending laws and regulations. The examination did not reveal any patterns or practices intended to discriminate or discourage lending to members of protected classes.

**LOAN-TO-DEPOSIT RATIO**

Review of the bank's Consolidated Reports of Condition (Call Report) revealed that the bank's quarterly loan-to-deposit ratios (March 1996 through March 1997) averaged 86.76%. The bank's loan-to-deposit ratio as of December 31, 1996 was 81.1%. The distribution, by loan type, as of December 31, 1996 is as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (\$000's)	PERCENT OF TOTAL LOANS (%)
REAL ESTATE		
Construction	529	1.3
Residential (1-4)	16,997	41.3
Commercial	3,457	8.4
Agricultural	5,717	13.9
CONSUMER		
Open-end Credit	317	0.8
All Other	8,788	21.4
COMMERCIAL AND INDUSTRIAL	2,821	6.9
AGRICULTURAL	2,463	6.0
TOTAL	41,084*	100.0

\*Net of \$5,000 Unearned Income

Since the previous examination, changes were noted with respect to the distribution of loans. The outstanding dollar amount of commercial and agricultural real estate loans, and credit cards increased; however, agricultural loans decreased. Management attributed the increases to the bank's business strategy and consumer demand and the decrease to the seasonality of agricultural lending.

According to the December 31, 1996 Uniform Bank Performance Report (UBPR), the bank's performance compared to peer is as follows:

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LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	0.4	1.7
1 - 4 Family Residential	41.7	30.8
Home Equity	0.0	0.2
Other Real Estate	21.1	21.1
Farmland	13.1	5.6
Multi-Family	0.0	0.4
Commercial	8.0	12.0
TOTAL REAL ESTATE LOANS	63.1	57.0
LOANS TO INDIVIDUALS	23.2	15.2
CREDIT CARD LOANS	0.7	0.3
COMMERCIAL & INDUSTRIAL LOANS	7.8	13.7
AGRICULTURAL LOANS	5.9	6.8
MUNICIPAL LOANS	0.0	0.4
OTHER LOANS*	0.0	0.2
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

BANK NET LOAN/LEASE TO DEPOSIT RATIO	PEER NET LOAN/LEASE TO DEPOSIT RATIO
81.1%	69.6%

Consistent with the bank's business strategy and loan demand within the assessment area, the bank has a higher concentration of real estate loans and loans to individuals, and a lower concentration of commercial and industrial loans than the peer group.

The following table illustrates the bank's loan-to-deposit (LTD) ratio compared to the ratios of its competitors:

Institution	Assets as of 12/31/96 (\$000)	LTD Ratio as of 12/31/96	LTD Ratio as of 12/31/95	Change in LTD Ratio from 12/31/95 to 12/31/96
The Friendship State Bank	\$58,806	81.1%	78.7%	+2.4%
Ripley County Bank	\$106,407	92.9%	85.8%	+7.1%
Citizens National Bank of Madison	\$62,695	88.8%	82.1%	+6.7%

Institution	Assets as of 12/31/96 (\$000)	LTD Ratio as of 12/31/96	LTD Ratio as of 12/31/95	Change in LTD Ratio from 12/31/95 to 12/31/96
Napoleon State Bank	\$50,816	77.1%	77.1%	No Change
Peoples Trust Company	\$295,421	72.0%	71.2%	+0.80%
American State Bank	\$42,472	67.2%	61.8%	+5.4%
Vevay Deposit Bank	\$51,256	61.1%	59.3%	+1.8%

As illustrated in the preceding chart, the bank's LTD ratio is similar to the ratios of competitors with similar asset sizes. Given the high LTD ratio, the bank's performance under this criterion exceeds the standards for satisfactory performance.

### LENDING WITHIN THE ASSESSMENT AREA

Review of 79 loans sampled revealed the following level of lending within the assessment area:

Loan Type	Total Number of Loans Sampled	Number of Loans Within the Assessment Area	Percent of Total
Real Estate	18	15	83.3
Installment	20	18	90.0
Single-Payment	20	17	85.0
Commercial	11	10	90.9
Credit Card	10	8	80.0
Total	79	68	86.1

As illustrated in the preceding chart, the majority of loans (86.1%) were made within the assessment area; of the total dollar amount (\$1,432,451) of these loans, \$1,152,301 (80.4%) were made within the assessment area.

Additionally, 105 (93.7%) of the 112 mortgage loans (from a six-month period) reviewed were made within the assessment area; approximately 86% of the total dollar value (\$4,409,567) of these loans were made within the assessment area.

The bank's level of lending within the assessment area is high, indicating that the bank's performance under this criterion exceeds the standards for satisfactory performance.

## BORROWER CHARACTERISTICS

### Consumer Lending

The following table illustrates the distribution of the sampled loans among borrowers of different income levels (for loans where borrower income information was available):

Loan Type	Loans to Low-Income Borrowers \$/#	Loans to Moderate-Income Borrowers \$/#	Loans to Middle-Income Borrowers \$/#	Loans to Upper-Income Borrowers \$/#	Total \$/#
Real Estate	\$0/0	\$85,184/3	\$309,350/8	\$344,800/7	\$739,334/18
Installment	\$12,303/4	\$68,645/8	\$48,795/5	\$20,078/3	\$149,821/20
Single-Payment	\$20,829/10	\$2,535/2	\$18,130/3	\$19,534/5	\$61,028/20
Credit Card	\$7,000/4	\$7,500/2	\$2,500/1	\$10,600/3	\$27,600/10
Total	\$40,132/18	\$163,864/15	\$378,775/17	\$395,012/18	\$977,783/68

Data in the preceding table is based on a sample of 68 loans (commercial loans are not included). Of the 68 loans, 26.5% were made to low-income borrowers, 22.0% were to moderate-income borrowers, 25.0% were to middle-income borrowers, and 26.5% were to upper-income borrowers. Approximately 4.1% of the total dollar amount of these loans were to low-income borrowers, 16.8% were to moderate-income borrowers, 38.7% were to middle-income borrowers, and 40.4% were to upper-income borrowers.

Additionally, review of 109 mortgage loans (totaling \$4.3 million) revealed that 7 (6.4%), 17 (15.6%), 38 (34.9%) and 47 (43.1%) were made to low-, moderate-, middle-, and upper-income borrowers, respectively. Of the total dollar amount of these loans (\$4,343,224), 5.5%, 9.9%, 27.9% and 56.7% were granted to low-, moderate-, middle-, and upper-income borrowers, respectively.

### Small Business/Small Farm Lending

Review of 11 sampled loans revealed that all were in amounts of \$100,000 or less. The June 1995 call report indicated that the bank's portfolio consisted of 231 business loans and 323 farm loans, of which all or substantially all were in amounts less than \$100,000; the June 1996 call report indicated that the bank's portfolio consisted of 230 business loans and 317 farm loans. Additionally, since the previous examination, the bank made seven guaranteed loans (totaling \$673,000) through the Farmers Home Administration (FmHA).

The bank's performance in lending to borrowers of different income levels and businesses of different revenue levels exceeds the standards for satisfactory performance.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

Of the 11 census tracts/BNAs within the assessment area, two are moderate-income and nine are middle-income. The examination loan sample revealed the following loan distribution, by census tract income level:

Loan Type	Loans in Moderate-Income Census Tracts/BNAs \$/#	Loans in Middle-Income Census Tracts/BNAs \$/#
Real Estate	\$23,400/1	\$525,361/14
Installment	\$16,625/3	\$128,129/15
Single-Payment	0/0	\$59,559/17
Commercial	\$75,025/1	\$299,641/9
Credit Card	\$500/1	\$24,000/7
Total	\$115,550/6	\$1,036,690/62

The majority of loans were made in the middle-income census tracts/BNAs. Of the 68 loans made within the assessment area, 6 (8.8%) were made in moderate-income tracts/BNAs and 62 (91.2%) were made in middle-income tracts/BNAs. Ten percent of the total dollar amount of loans were made in the moderate-income tracts/BNAs and 90% were made in the middle-income tracts/BNAs.

Review of the CRA loan sample of 105 real estate loans made within the assessment area revealed stronger penetration of lending in the moderate-income census tracts/BNAs; 18 loans (17.1%) totaling \$893,521 (23.6%) were made in moderate-income census tracts/BNAs and 87 loans (82.9%) totaling \$2,896,746 (76.4%) were made in middle-income census tracts/BNAs.

The examination loan samples revealed good penetration throughout the assessment area, no evidence of irregular lending patterns, and indicate that the bank's performance meets the standards for satisfactory performance under this criterion.

### **COMPLAINTS FILED DURING THE REVIEW PERIOD**

There were no CRA-related complaints filed during the examination review period.



